Sydney Environmental Resources Limited

2002-03 ANNUAL REPORT

The Honourable Michael G. Baker, Q.C.
Minister of Transportation and Public Works

Letter to the Minister of Transportation and Public Works

On behalf of the Board of Directors, I have the pleasure to submit herewith the Annual Report of Sydney Environmental Resources Limited for the period ended March 31, 2003.

Sydney Environmental Resources Limited continued to demonstrate versatility and functionality in the effective execution of challenging core business functions. The company is part of Nova Scotia's team working on the clean up of the Muggah Creek Watershed and remains committed to the delivery of timely, quality services in the interests of the government and community. In partnership with Sydney Steel Corporation, experienced adaptable personnel were marshalled to decommission the steel plant site as well as remove hazardous materials from structures adjacent to the former steel mill. Labour relations remained a priority of the company and contributed appreciably to continued successful performance.

Collective effort and collaboration are fundamental to the company's operating philosophy. The men and women who guide the company do so with obvious dedication and resolve.

Respectfully yours,

E. J. MacLellan, Ph.D., P.Eng.
Acting Chairman

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Corporate Profile

The Company was incorporated under the Nova Scotia Companies Act on July 10, 1990. The Governor in Council, Province of Nova Scotia, on the report and recommendation of the Minister of Industry Trade and Technology and in accordance with the appropriate Acts, approved establishment of Sydney Environmental Resources Limited (SERL), formerly Sydney Tar Ponds Clean-Up Inc., on March 26, 1991. Consistent with policies of the Government of Nova Scotia, the corporation employs an outcomes and performance measurement framework in the design and execution of individual core business functions. The model is consistent with the corporation's business plan and makes use of traditional performance assessment tools in tandem with modern comptrollership techniques.

SERL is organized around three units:

- PLANNING AND ADMINISTRATION;
- OPERATIONS; AND
- CONTRACT SERVICES.

The Corporation maintains its head office in Sydney, NS, and reports to the Minister of Transportation and Public Works, Province of Nova Scotia.

Core Business Functions

As approved by the shareholder in the corporate business plan submitted for the Fiscal Year 2002/2003, Sydney Environmental Resources Limited's core business functions were:

- to complement efforts of the Department of Transportation and Public Works, in particular Sydney Tar Ponds Agency, in discharging Nova Scotia's responsibilities as lead agency within the framework of the Memorandum of Understanding on the clean up of the Muggah Creek Watershed between government partners and the Joint Action Group on Environmental Clean Up;
- to maintain the co-generation complex originally constructed as part of the Sydney Tar Ponds clean up;
- within the framework of the Memorandum of Understanding between government partners and the Joint Action Group and by special arrangement with the agent for the Province of Nova Scotia on SYSCO, deploy trained, experienced personnel to secure Nova Scotia government land holdings within the Muggah Creek Watershed and at the SYSCO site;
- by special arrangement with the agent for the Province of Nova Scotia on SYSCO, decontaminate large-scale industrial structures throughout the former steel plant site; and
- remove hazardous materials (asbestos) from industrial structures on the former steel plant site.

Mission

Sydney Environmental Resources Limited's mission is to maintain the physical assets of the former Sydney Tar Ponds Clean-Up Inc.; secure Nova Scotia's land holdings within the Muggah Creek Watershed and Sydney steel plant site; assist in the decommissioning of industrial structures on the steel plant site and adjacent Nova Scotia lands; and provide various labour-related services to the management of SYSCO and the Sydney Tar Ponds Agency (NS).

Compliance

SERL operated in compliance with the Policies and Procedures of the Province of Nova Scotia. More particularly with respect to procurement, the Corporation employed government principles and procedures to secure goods and services at the lowest possible cost while maintaining requisite quality, safety, delivery and service requirements. Additionally, fair-hiring practices applied in conformity with collective bargaining agreements where applicable. The Corporation complies with Nova Scotia legislation on Freedom of Information.

Financial statements are prepared monthly and yearly in accordance with generally accepted accounting principles to reflect the financial position and results of operations of the Corporation within reasonable limits of materiality. The integrity of financial reporting is ensured with a system of internal accounting controls comprising written policies and procedures and a formal authorization structure. The Board of Directors carries out its responsibility for the financial statements through an Audit Committee. The financial statements of the Company are independently audited in accordance with generally accepted auditing standards.

Retrospect- Fiscal Year 2002-03

Introduction

The report period was particularly active with the range and number of projects and assignments completed under contract surpassing previous years. Consequently the workforce reached an all time high and, as a result, demands on administrative services grew accordingly. Despite this, the corporation kept increases in overhead expenses to a minimum.

In decontaminating Sydney steel plant structures more than a dozen major projects were undertaken to render several large industrial buildings safe for demolition. Greater than 200,000 person hours were required to complete the assigned tasks. In addition, more than 300 tons of asbestos were safely removed from structures on Nova Scotia lands adjacent to the steel plant site. The assets of the original Sydney Tar Ponds clean up were maintained in a programmed manner and a comprehensive senior management report indicated the equipment could be recommissioned if required. Security commanded considerable effort and, once again, there were no major incidents on sites in the company's care. Within the framework of contract services provided to Sydney Steel Corporation, the company became engaged in quarrying blast furnace slag on the steel plant site.

Human resource policies were continually updated and work place training was continued on a regular basis. Health and safety was given judicious attention throughout the report period and strategic committees met regularly. As well, internal and external communications were frequent and regular on a planned basis.

Reporting Line

As part of an integrated and considered approach to the remediation of the Muggah Creek Watershed, the corporation maintained close ties with the Sydney Tar Ponds Agency (STPA). The agency was established to enhance Nova Scotia's role in the clean up of the Muggah Creek Watershed through the strategic deployment and co-ordination of provincial resources.

Board of Directors

The Board of Directors remained active in the overall direction of the business of the corporation. Directors met regularly throughout the fiscal year; and, special meetings were convened as required. Internal committees were utilized as follows: Audit, Technical, Human Resources, and Public Relations.

The complement of directors stands at six with two vacancies. Mr. Gary Campbell, Executive Director, Technical Services, Sydney Tar Ponds Agency, served as liaison between the corporation and the shareholder – Minister of Transportation and Public Works.

BOARD OF DIRECTORS

ACTING CHAIRMAN
Edwin MacLellan

VICE CHAIRMAN
Ray Martheleur

George Hepworth

Fred James

John MacRitchie

Frances Morrison

Front Row: L to R - Frances Morrison, Fred James & Ray Martheleur (Vice-Chairman) Back Row: L to R - George Hepworth, Edwin MacLellan (Acting Chairman) & John MacRitchie

Business Plan – Fiscal Year 2003-2004

In keeping with government policy, late in 2002, the Board of Directors recommended to the Shareholder a corporate business plan for the Fiscal Year 2003-2004. Included among strategic goals were the provision of support to Nova Scotia, in particular Sydney Tar Ponds Agency, in planning and implementing clean up of the Muggah Creek Watershed; decontaminating large scale industrial structures on the SYSCO site by special arrangement with the agent for the Province of Nova Scotia on SYSCO; maintenance of the assets of the original Sydney Tar Ponds clean up; protection of the Government of Nova Scotia's land holdings within the Muggah Creek Watershed; an effective working relationship with SYSCO, its agents and assigns; and co-operative labour relations with key bargaining units.

Priorities & Performance Measures

As approved by the Shareholder, the corporation pursued the following core business activities in the 2002-2003 report period: maintenance, site security, support of Nova Scotia's role as lead agency in the execution of the memorandum of understanding concerning remediation of the Muggah Creek Watershed, decontamination of industrial structures on the Sydney steel plant site, and the removal of hazardous materials (asbestos) from structures on Government of Nova Scotia lands in and around the former steel plant site.

a) Maintenance

The co-generation plant originally constructed as part of the Sydney Tar Ponds clean up and comprising twin fluidized bed incinerators, bag house, boiler house and power generation station has been maintained by the corporation since 1994. As part of a planned program a complement of ten unionized staff completed a range of tasks at the facility in the report period. Included among more significant activities were the replacement of the neutral grounding bank, a key component of the overall electrical system, repairs to the water treatment plant, upgrades to the direct current power supply to the central control panels, enhancement of the main water line, repairs to key sump pumps in the fuel cell, electrical maintenance to motor control relays and heat tracing panels, repairs to the fire water supply line, and maintenance of various electrical, light and heating systems.

The desired outcome of the maintenance program was to ensure that thermal destruction potentially involving the use of the twin fluidized bed

incinerators continued a viable option within the process established by JAG and its government partners to identify remediation methods for the clean up of the Sydney Tar Ponds and Coke Ovens.

At the request of the Board of Directors, senior management completed a detailed assessment of the overall condition of the co-generation complex. The appraisal reaffirmed the practicality of recommissioning the complex. Thermal destruction was one of several remediation options placed before community stakeholders as part of the JAG process in a broadly based consultation that began early in 2003.

b) Security

The corporation is responsible for security of the assets of the former Sydney Tar Ponds clean up, the Coke Ovens site and Sysco property. A complement of six successfully executed security activities in tandem with the planned maintenance of the original Sydney Tar Ponds assets. Acting on a directive of the Sydney Tar Ponds Agency and in compliance with an earlier recommendation of the Joint Action Group on Environmental Clean Up, corporate personnel continued to secure the Coke Ovens site. Staff of six were responsible for this endeavour.

Ernst & Young Inc., Agent of the Province of Nova Scotia on SYSCO, exercised an option to have the corporation continue management of security services at the SYSCO site for fiscal year 2002/03. A complement of thirteen (13) affiliated with the Canadian Union of Public Employees was engaged in the provision of services.

The desired outcome of the security function was to keep Nova Scotia's assets within the Muggah Creek Watershed safe and protected and, thereby, prevent potentially adverse incidents or challenges.

There were no occurrences, claims or controversies respecting Nova Scotia's assets that SERL was charged with securing.

c) Support of Nova Scotia in the capacity of lead agency in the implementation of the memorandum of understanding between JAG and government partners

SERL continued to support the Department of Transportation and Public works, in particular STPA, in a range of areas related to the community stakeholder process dedicated to the clean up of the Muggah Creek Watershed. Among more significant initiatives undertaken were operation of the water treatment plant at the site of the former Coke Ovens, repair and maintenance of the water line and sewer lift station at the Coke Ovens site, renovation and set-up of temporary administrative facilities in connection the North of Coke Ovens project, demolition of former residential structures adjacent to the Coke Ovens site, control of the coffer dam at the south pond, Sydney Tar Ponds, and accounting, clerical and secretarial support.

The declared outcome of the support function was to facilitate execution of the memorandum of understanding between JAG and its government partners and to assist Nova Scotia to meet targets as regards the community stakeholder process.

The memorandum of understanding was executed as planned in the report period and the stakeholder process is on schedule.

d) Industrial structures decontamination at the SYSCO site

Under terms an agreement with the agent for the Province of Nova Scotia on SYSCO, SERL mobilized and managed unionized personnel (United Steelworkers of America and Cape Breton Building Trades) in decontaminating structures on the site of the former Sydney Steel Corporation.

In the report period, more than a dozen separate projects were undertaken involving large multi storied structures often comprising greater than 50,000 square feet. Each was prepared for demolition by removing such things as hazardous materials, fluids and electrical components. Decontaminated as part of this activity were the turbo blower building, reheat furnace, roll shop, steel shop, and several storage bays connected to the former finishing and bloom mills. As well, decommissioning work was successfully completed on a holding tank farm, and a section of the docks. SERL personnel were also engaged in processing scrap steel and timbers on site. More than 200,000 person hours of work resulted from the completion of the above noted projects without incident.

The established outcome for this initiative was to successfully execute the decontamination plan on time and within budget and to be have the overall task seventy-five per cent complete by the end of the report period.

The work was completed on time and within budget and the former steel plant site was seventy-five per cent decommissioned as at March 31, 2003.

e) Removal of hazardous materials (asbestos) from structures on Nova Scotia lands in and around the former steel plant site.

A complement of twelve corporation personnel safely removed approximately 325 tons of asbestos from A, B and D boilers along with a former power house at the north end of the steel plant site within the co-generation complex. The material was extracted from miles of tubing and piping on the exterior of each boiler and the power house, bagged in keeping with regulated practices and disposed of in a certified landfill. Greater than 12,000 person hours of employment resulted from this initiative.

The outcome enunciated for this activity was the decontamination of structures formerly used in steel production and located on Nova Scotia lands adjacent to the Sysco site.

The work plan for the project was successfully executed on time and within budget in compliance with health, safety and environmental regulations.

Human Resources

The Corporation operated with full-time equivalent staff of twenty-five. In combination with contract personnel engaged in steel plant security, asbestos abatement, decontamination and quarrying, the staff complement peaked at one hundred. The management team comprised two senior executives and two administrative staff.

Late in the report period at the behest of the Agent for the Province of Nova Scotia on Sysco, the corporation became engaged in quarrying blast furnace slag on the Sysco site. Materials were employed in the construction of a connector road between the former steel plant site and Highway 105 at the Sydney by-pass. A complement of seven was assigned to this function.

The practice of workplace training was continued in the report period with emphasis given specialized security techniques, asbestos handling, confined space, fall arrest and acetylene burning.

Health and Safety

Three strategic internal committees were mandated to ensure that the workplace was compliant with health and safety regulations. The corporation was represented on each by a health and safety officer. There were no major health and safety incidents in the report period.

By special arrangement, the corporation regularly collected air samples at certain work sites on the Sysco property to ensure decommissioning activities were compliant with regulations governing the quality of air.

Working Agreement

A memorandum of understanding was executed between the corporation, Sydney Steel Corporation and Ernst & Young, Agent for the Province of Nova Scotia on Sysco, setting out principles, protocols and procedures governing the working relationship between the parties in the delivery of contract services throughout the steel plant decommissioning and related activities.

Communications

Communications continued a priority. Internal briefings were held with the workforce and a newsletter was regularly published for the purpose of ensuring that personnel were current on developments and motivated to participate in various activities. Site tours and briefings were coordinated for various interest groups, including some from outside the country. A close working relationship was maintained with the University College of Cape Breton, in particular students enrolled in engineering and environmental technology studies. Membership was continued in the Nova Scotia Environmental Industry Association. The company's WWW site was frequently updated and management participated in a student career exposition at the Nova Scotia Community College, Marconi Campus.

www.serl-ns.com

Management Report

The accompanying financial statements and other financial information contained in the Annual Report were the responsibility of management and approved by the Board of Directors. The financial statements were prepared in accordance with generally accepted accounting principles except as disclosed in Note 3 to the financial statements and, where appropriate, reflect management's best estimates and judgments. In the opinion of management, these financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

To discharge its responsibility for the integrity of financial reporting, management maintained a system of internal accounting controls that comprised written policies and procedures and a formal authorization structure. This system is designed to provide management with reasonable assurance that assets are safeguarded; that transactions are properly authorized and that financial records are properly maintained to provide accurate and reliable financial information.

The Board of Directors carried out its responsibility for the financial statements through its Audit Committee, which consisted entirely of members of the Company's Board. This Committee met periodically with management and the external auditor to discuss and review audit and financial matters, and recommended the financial statements of the Board of Directors for approval. The Company's external auditor had free and full access to the Audit Committee.

The financial statements were independently audited by Nash & Associates in accordance with generally accepted auditing standards. The Auditor's Report outlined the nature of their audit and expressed their opinion on the financial statements.

Edwin MacLellan, P.Eng.
Acting Chairman

Brenda Tattrie
Manager

Nash &
Associates
Chartered Accountants

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AUDITORS' REPORT

We have audited the operating fund balance sheet of **Sydney Environmental Resources Limited** for the year ended March 31, 2003 and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2003, and the results of its operations for the year then ended, in accordance with Canadian generally accepted accounting principles except as disclosed in Note 3.

Nash & Associates

May 12, 2003

Chartered Accountants

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
BALANCE SHEET
AS AT MARCH 31, 2003

	2003	2002
ASSETS		
Current		
Cash	**$ 231,062**	$ -
Accounts receivable (Note 4)	**189,682**	278,613
Prepaid expenses	**2,480**	6,854
	$ 423,224	$ 285,467
LIABILITIES		
Current		
Bank indebtedness	**$ -**	$ 137,792
Accounts payable and accrued liabilities	**334,001**	147,675
Due to Province of Nova Scotia (Note 5)	**89,222**	-
	423,223	285,467
EQUITY		
Share capital (Note 8)	**1**	1
	$ 423,224	$ 285,468

Commitments (Note 7)

Approved by the Board

.....Director

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SYDNEY ENVIRONMENTAL RESOURCES LIMITED
STATEMENT OF REVENUE AND EXPENDITURES
YEAR ENDED MARCH 31, 2003

	2003	2002
Revenue		
Province of Nova Scotia		
Operations	**$ 1,164,038**	$ 1,243,024
Site security and other community costs	**512,224**	473,033
Asbestos Abatement Project	**-**	178,685
Sydney Steel site decommissioning	**2,824,819**	1,518,812
	4,501,081	3,413,554
Expenditures		
Operations (Schedule 1)	**1,164,038**	1,243,024
Site security and other community costs		
Wages and benefits	**298,780**	327,082
Supplies and services	**213,444**	145,951
Asbestos Abatement Project		
Wages and benefits	**-**	127,938
Supplies and services	**-**	50,747
Sydney Steel site decommissioning		
Wages and benefits	**2,403,543**	1,031,047
Supplies and services	**421,276**	487,765
	4,501,081	3,413,554
Excess revenue over expenditures	**$ NIL**	$ NIL

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2003

1. AUTHORITY AND OBJECTIVE

The Company was incorporated under the Nova Scotia Companies Act on July 10, 1990. It was established as a crown corporation of the Province of Nova Scotia by Order-in-Council on March 26, 1991. On January 7, 1998 the company changed its name from Sydney Tar Ponds Clean – Up Inc. to Sydney Environmental Resources Limited.

Its current objective is to utilize its resources in emerging community based environmental initiatives.

2. CONTINUATION OF THE BUSINESS

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The continuation of the Company is dependent upon obtaining necessary funding from the Province of Nova Scotia and/or the Government of Canada.

3. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles except as outlined below.

a) Financing

The Company, an agency of Her Majesty, receives legislative appropriations for operating expenditures. These appropriations are reflected as operating grants to the extent of operating expenditures. Any excess appropriations are accounted for as deferred operating grants. Consequently, the Company does not have any equity.

b) Capital Assets

In accordance with funding requirements, the cost of capital assets are accounted for as current operating expenditures.

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2003

4. ACCOUNTS RECEIVABLE

	2003	2002
Sydney Steel site decommissioning	**$ 155,290**	$ 145,139
HST receivable	**18,114**	69,638
Province of Nova Scotia	**-**	34,517
Other	**16,278**	29,319
	$ 189,682	$ 278,613

5. PROVINCE OF NOVA SCOTIA FUNDING

The Company received the following amounts from the Province of Nova Scotia in the year:

	2003	2002
Current operating grant	**$ 1,164,038**	$ 1,243,024
Asbestos Abatement Project	**-**	102,525
Site security and other community costs	**512,224**	473,033
	$ 1,676,262	$ 1,818,582

As at March 31, 2003 there was a net payable to the Province of Nova Scotia for funding received in excess of expenditures of $89,222 (2002 – $ 34,517 receivable).

6. RELATED PARTY TRANSACTIONS

In addition to the related party transactions in Note 5 above, the Company is related in terms of common ownership to all Province of Nova Scotia created departments, agencies and crown corporations. The Company enters into transactions with these entities in the normal course of business.

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2003

7. COMMITMENTS

a) Operations

The Company has committed to the Province of Nova Scotia, that it will run its affairs in accordance with Provincial standards. Its operations will be accountable to the Province through the Minister responsible for Sydney Environmental Resources Limited.

b) Sydney Steel Corporation

The company has undertaken to hire displaced Sydney Steel Corporation employees.

8. SHARE CAPITAL

Authorized
50,000 common shares with no par value

Issued

1 share at $1	**$ 1**

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
SCHEDULE 1
OPERATING EXPENDITURES
YEAR ENDED MARCH 31, 2003

	2003	2002
Operating expenditures		
Directors' fees	**$ 12,719**	$ 15,226
Health, safety and environmental	**71,977**	144,260
Incineration plant operation and maintenance	**14,049**	16,967
Incineration plant overhead	**217,834**	201,052
Office	**35,253**	32,728
Professional fees	**19,368**	28,681
Public information	**35,184**	48,628
Rent	**30,000**	30,000
Salaries and benefits	**660,138**	636,441
Technical services	**43,103**	67,696
Telephone	**10,783**	9,927
Travel	**13,630**	11,418
	$ 1,164,038	$ 1,243,024

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
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